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SUBJECT: CHILE'S ENERGY HIGHLIGHTS FEBRUARY 2009

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11. (U) SUMMARY: This cable provides highlights of activity in the Chilean energy sector during February 2009. Chile's Energy Minister met with Secretary of Energy Chu in Washington to discuss collaboration on renewable energy and energy efficiency. Supported by recent profits and regulatory improvements, Chile's power sector continues to expand with new thermal and wind projects. Developers submitted environmental impact assessments for two new coal plants. A French wind turbine manufacturer plans to invest in feasibility studies and a French multinational signed a long-term power sale agreement. The World Bank's International Finance Corporation (IFC) will support Chile's first project-financed wind farm. Environmental regulators rejected the environmental impact statement (EIS) for a new hydroelectric project and eight companies participated in a geothermal tender. High prices for long-term energy supply contracts may result in increased consumer prices. Chile's natural gas distributor reported net losses for 2008. End summary.

Energy Minister Touts Chile's Renewable Resources

12. (SBU) Energy Minister Marcelo Tokman met with U.S. Energy Secretary Chu in Washington, D.C. on February 19 (septel). They discussed Chile's desire to be a strong partner with the U.S. in the as-yet-to-be-defined Energy Partnership of the Americas. Tokman lauded collaboration with Lawrence Berkeley National Labs and expressed Chile's interest in increasing collaboration on energy efficiency and renewable energy. In meetings with State Department officials, Tokman outlined plans for a renewable energy center, solicited support for a 10-15 megawatt solar project in northern Chile, and made the case for renewable energy pilot projects located in Chile.

Power Sector Expands Despite Economic Crisis...

13. (U) In recent press reports, Minister Tokman said energy projects worth US\$7.72 billion are under development in Chile and up to US\$13.3 billion more could be approved this year.

...New Thermal Plants and Wind Projects

14. (U) Chilean firm Rio Seco submitted an EIS to Chile's national environmental regulator (CONAMA) for a US\$750 million coal-fired plant in Chile's Region I. The plant would be located about 60km south of Iquique and would add 350MW to the country's northern power grid.

¶15. (U) Chilean generator Edelnor submitted an EIS for a 750MW coal-fired plant in Mejillones (Region II) to be connected to the SING grid. Proposed investment in the project is US\$1.5 billion and includes: dock construction to import diesel, coal, biomass, and petcoke for the new plant; Edelnor's existing plant; and another related company's thermal plant.

¶16. (U) At the beginning of February, UK renewable generation company Seawind submitted an EIS to construct a US\$63 million wind farm in Canela. If approved, developers will install 13 wind turbines to add 26MW of capacity to the country's central grid. Seawind has several other wind farm projects in Chile including a 100MW, US\$230 million project in Qillagua.

¶17. (U) On February 9, French wind turbine manufacturer Alstom announced intentions to invest in wind feasibility studies in Chile, with the goal of having the company's first operational wind farm with 45-60MW of capacity in 2012-2013.

¶18. (U) According to GDF Suez's February 12 press release, construction started on its Monte Redondo wind farm, located 320 km north of Santiago, with an installed capacity of 38MW and a US\$120 million price tag. On February 5, the company signed a 14-year contract for 100 GWh/year from the farm starting 2010.

IFC Supports Chile's First-Ever Project Financed Wind Farm

¶19. (U) On February 9, the World Bank's IFC signed an agreement to invest US\$61.5 million in Chile's first ever project-financed wind farm, Totoral Park. IFC's financing monetizes expected carbon revenues under the Kyoto Protocol's Clean Development Mechanism (CDM). The 46MW project is being developed by Norvind SA, a joint-venture between Norway's SN Power and the Chilean investment company Centinela. Totoral Park should be completed this year, is 300 km north of Santiago, and will generate 110 GWh/year for the central grid. According to the IFC, this is the first project under Chile's March 2008 "Non-Conventional Renewable Energy Law."

Proposed New Hydro Project Stumbles on First Step

¶10. (U) Chilean Hidroelectrica Trayenko, a joint-venture between SN Power (80 percent) and the Chilean investment fund Centinela (20 percent), plans to invest US\$1 billion in a 400MW hydroelectric power project over the next 5 years. According to SN Power's website, it is conducting environmental and economic feasibility studies on four run-of-river projects in Chile's Region X. In mid-February, however, CONAMA rejected the EIS for the first phase of the project, a 320MW plant.

Eight Companies Participating in Geothermal Concessions Bid

¶11. (U) According to the Ministry of Mining, eight companies purchased bid packages (offers are due by March 31) for the tender on two geothermal blocks in Chile's Region I, including: Energia Andina (a joint-venture between ENAP and Antofagasta Minerales); Canada's Magma Energy, Polaris Energy, and Nevada Geothermal Power; New Zealand's GeoGlobal Energy; the Chilean branch of the British company Seawind; and a Chilean mining firm. Also participating, Aquavant SA, a local subsidiary of the Israeli geothermal company Ormat Technologies, which has a major plant in Reno, Nevada.

Long-term Electricity Contracts Likely to Drive Up Prices

¶12. (U) Chilean electricity distributors accepted offers from electricity generators for long-term (12-15 years) power supplies of 7.11TWh/year, at an average price of US\$104.312/MWh, beginning in 2010. The average price was above the US\$75/MWh analysts expected and likely reflects that there is limited new capacity coming on-line before 2011. Besides guaranteeing a long-term supply of power to distributors, the contracts play a key role in determining the price regulated users will pay starting in 2010.

Chile Metrogas Posts Losses for 2008

¶13. (U) Following announcements that Chile's national oil company, ENAP, lost over US\$800 million (reftel), on February 25 Chile's natural gas distributor Metrogas reported a loss of about US\$16.1 million in 2008. Higher Argentine taxes on gas exports increased operating costs while reduced gas imports affected Metrogas' ability to supply industrial customers.

COMMENT: Diversifying its Energy Matrix Will Help Economy

¶14. (SBU) Minister Tokman was in Washington, D.C. to participate in the Inter-American Development Bank's launch of "A Blueprint for Green Energy in the Americas 2009," which reports that Latin America and the Caribbean's share of CDM investment has decreased significantly since 2006. As a stable country with a relatively large economy and substantial natural resources, however, Chile is still drawing foreign investment for renewable projects. Despite murmurs of concern about greenhouse gas emissions, Chile also continues to expand thermal plants and expects to bring its first LNG regasification plant on-line this year. Along with large hydroelectric projects, renewables are part of Chile's answer to its on-going energy crisis, but the economy is slowing down and the industrial demand for power may decrease, especially in the mining sector. However, Chile is well-positioned to bounce back after the current economic crisis and on-going investment in renewables will provide an environmentally responsible way to fuel a return to economic growth. End comment.